Changes to Our City's Investment Policy: For or Against?

Posted by Pierluigi Oliverio on Monday, June 11, 2007

City Hall Diary

As I have mentioned before in a few of my posts, my parents taught me the importance of saving my money and using it prudently at a very young age. I think my parents taught me well; they practiced what they preached and I learned by example.

Twenty years ago, my father was diagnosed with cancer. My parents, both teachers, with two children and a mortgage, were able to pay for my father's healthcare bills which cost over $130,000. How? Because they saved money every day of their lives. The insurance they had twenty years ago would not cover all of the costs of cancer treatment; therefore, it was up to my parents to pay the bills. In today's world those costs would equal $250,000-300,000.

Like my parents, I believe it is important to be conservative with my own money. As a consequence, I treat the public's money like my own—responsibly and carefully. Catastrophes, hard times, or a national emergency may come at any time for San Jose. So, it is up to the city council to ensure that the City of San Jose has security and liquidity of its finances to take care of the tenth largest city.

San Jose has a pattern of not being as prudent and responsible as it should have been with city finances. Our City experienced a $60 million bond loss in 1984. (Not to mention all the money the city has wasted suing small business owners and other public governmental agencies, etc.) In fact, I remember attending the hearings at City Hall when I was in the 8th grade. To be honest, I would cut class to attend. I did not understand exactly what was transpiring at the age of 14, but I did know that the community was shocked that the city was not more prudent with the public's money. (On a side note, I also remember that former Mayor Tom McEnery and Councilmember Jerry Estruth had really big hair!)

This past week, on June 5 at the city council meeting, the finance department proposed contracting out a portion of the City's portfolio to an investment firm. This would be similar to investing in a mutual fund portfolio through Fidelity or T. Rowe Price. The firm would be paid for their services to manage a portion of our portfolio. Going forward, their evaluation would be performance-based on the return on investment they earned for San Jose. The finance department believes we could gain a higher return by doing this.

However, for us to change course, the city would need to hire additional staff and subscribe to investment technology for the first year at a cost of $470,000. This amount will be ongoing and grow over time, which then cuts into how much more the city could make. This model would be like you investing in mutual funds—doing the work by yourself without any problems and earning money—and then stopping only to hire a financial planner to oversee the portfolio that you were doing perfectly well with on your own. I am not sure why the finance department would propose a new method when the previous method was not broken.

In addition, there is an incomplete audit of the finance department that was being conducted by the city auditor's department. This audit would have been completed by September. I would prefer to see what that audit report says before we implement changes. At the finance committee meeting, I couldn't help but notice how adamant the finance department was against the completion of this audit and their push for the city council to move forward with their idea.

Anyway, as I said, I voted against changing a system that is not broken and that has earned a secure return on investments in commercial paper, treasuries, money markets, etc. (This information is located right on the finance department's website.)

An argument was made that other cities like San Francisco have earned more than San Jose on their investments this past year. However, we are not San Francisco and we should be careful comparing ourselves to other cities. In my opinion, with the upside of a higher return, there is also the downside risk. Would you rather have a guaranteed safe return or a more volatile return? When it comes to the one million people who live in San Jose, earning a secure and liquid return is the most responsible way to invest money.

Let me ask you: Do you believe we should have a guaranteed secure rate of return for city investment or do you trust the City of San Jose to invest your money at a higher risk for a higher return? Of course, that is after we pay over $470,000 for additional staff and not including commissions. What do you think?

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